

## Message Text

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73

ACTION EA-10

INFO OCT-01 EUR-08 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 DRC-01 /050 W

----- 090738

R 111050Z OCT 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 5212

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USEC MISSION BRUSSELS

USOECD MISSION PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 13319

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: RECENT FOREIGN EXCHANGE MARKET DEVELOPMENTS

SUMMARY: YEN HAS DECLINED BY 1.6 PERCENT FROM  
SEPTEMBER 24 PEAK AND IS NOW BACK TO LEVEL OF  
YEN 299.30 PER DOLLAR. THERE IS SOME INDICATION  
THE BOJ IS AGAIN GIVING YEN ON MODERATE SUPPORT AT THIS  
CURRENT LEVEL. AROUND MID-SEPT YEN HAD APPRECIATED  
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ABRUPTLY BY 2.7 PERCENT TO PEAK OF 294.60

ON SEPT 24 FOLLOWING FAVORABLE B/P REPORT FOR AUG.  
 AND NEWS OF OFFICIAL BORROWINGS OF PETRO-DOLLARS. IN  
 FORWARD MARKET, BOTH THREE-MONTH AND SIX-MONTH RATES  
 HAVE CONSISTENTLY MAINTAINED SLIGHT DOLLAR PREMIUMS  
 IN PAST THREE WEEKS. TRADING VOLUME HAS BEEN  
 MODERATE EXCEPT FOR WEEK OF SEPT. 30 - OCT. 4 WHEN  
 SPOT VOLUME ROSE TO TOTAL OF \$453 MILLION. FOLLOWING  
 ARE RECENT FOREX RATES ALONG WITH COMMENTARY BASED  
 ON BANKING SOURCES. END SUMMARY.

## 1. FOREIGN EXCHANGE RATES:

DATE	SPOT	3 MO FWD	6 MO FWD	SPOT VOL
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(MIL DOLS)

(ANNUAL PERCENT DOLLAR  
PREMIUM)

SEP 23 -----CLOSED-----

SEP 24 294.60 (-) 0.81 0.68 94

SEP 25 295.50 1.22 0.95 67

SEP 26 295.70 1.39 1.18 56

SEP 27 297.70 0.40 1.37 104

SEP 30 298.50 2.01 1.01 122

OCT 1 299.00 0.80 1.34 88

OCT 2 298.60 2.01 1.11 73

OCT 3 299.00 1.94 1.14 106

OCT 4 299.30 0.94 0.77 64

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OCT 7 299.60 0.53 0.70 58

OCT 8 299.90 0.53 0.47 83

OCT 9 299.40 1.20 0.80 72

OCT 10 -----CLOSED-----

OCT 11 299.30 0.40 0.53 55

NOTE: SPOT RATE FOR OVERTIGHT DELIVERY IS  
"REPRESENTATIVE " OR MODAL RATE OF DAILY TRANSACTIONS.

2. FOREX MARKET OBSERVES CITE USUAL "TECHNICAL"  
FACTOR AS CAUSING VERY RECENT YEN DECLINES. THESE  
INCLUDE INTRA-MONTH SEASONAL FACTORS SUCH AS  
SETTLEMENT OF IMPORT USANCE CREDITS, SALE OF  
EXPORT BILLS, DOMESTIC FINANCIAL SITUATION, ETC. THESE  
FACTORS EXPECTED TO REVERSE THEMSELVES AFTER MID  
OCTOBER AFTER WHICH OBSERVERS WILL STRENGTHEN YEN RATE AGAIN.

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ACTION EA-10

INFO OCT-01 EUR-08 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 DRC-01 /050 W  
----- 111991

R 111050Z OCT 74  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHCS 5213  
INFO AMEMBASSY BERN  
AMEMBASSY BONN ARUP  
AMEMBASSY BRUSSELS  
AMEMBASSY CANBERRA  
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USEC MISSION BRUSSELS  
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3. GOJ REPORTEDLY ENCOURAGING FOREIGN BANKS TO  
BRING IN ADDITIONAL DOLLARS BY DRAWING ON UNUTILIZED  
SWAP LINES AND MAKING NEW IMPACT LOANS. HOWEVER,  
INFLOW OF FUNDS THROUGH THESE OPEN CHANNELS IN PAST  
WEEKS EVIDENTLY INSUFFICIENT TO MEET NET PAYMENTS  
NEEDS FOR TRADE, INVISIBLES AND PERMISSIBLE LONG-  
TERM CAPITAL FLOWS, SO THAT YEN RATE IS AGAIN  
WEAKENING.

4. OCTOBER ALLOCATION OF IMPACT LOAN REPORTED TO BE  
UNCHANGED FROM SEPTEMBER AT \$170 MILLION (THIS  
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EQUIVALENT TO 12 PERCENT OF AGGREGATE MONTHLY CEILING ON YEN  
LOANS BEING IMPOSED ON JAPANESE BANKS IN FOURTH  
QUARTER AS PART OF TIGHT MONEY POLICY). SOME  
TEXTILE AND SHIPPING COMPANIES NOW BEING PERMITTED  
TO SEEK IMPACT LOANS, GENERALLY WITH JAPANESE BANK  
GUARANTEE. EUROPEAN BANKERS EVIDENTLY MORE WILLING  
TO ARRANGE (DOLLAR DOMINATED) IMPACT LOANS THAN  
U.S. BANKERS. LATTER CITE TIGHTER HEAD OFFICE POLICY  
E.G., BIGGER SPREADS BETWEEN COST OF FUNDS  
AND RATES CHANGED, DEALS PRIMARILY WITH TRADITIONAL  
TOP-GRADE CUSTOMERS, AND CONSIDERATIONS OF LEVEL OF  
BANK'S TOTAL COUNTRY EXPOSURE.

5. DRAW-DOWN BY BANKS OF UNUTILIZED SWAP LINES BEING  
DONE CAUTIOUSLY, DEPENDING ON FAVORABLE ARBITRAGE  
INCENTIVE. PROCEEDS CAN ONLY BE UTILIZED IN MONEY  
MARKET AND SOME BANKERS UNWILLING TO PAY OFF CALL  
MONEY INDEBTEDNESS FOR FEAR THAT BOJ MAY RESTRICT  
THEIR FUTURE BORROWINGS. FURTHERMORE, BECAUSE BOJ  
APPROVAL NEEDED FOR REDUCTIONS (AS WELL AS INCREASES)  
IN SWAP LINES, BRANCHES CONSIDER SWAPS AS REPRESENTING  
LONG-TERM FUNDING INVOLVING CONSIDERABLE RISKS (I.E.,  
FUTURE BORROWING-LENDING RATES AND GAIN OR LOSS  
ON FORWARD CONTRACTS). RESTRICTIONS PREVENT JAPANESE  
BANKS FROM ENGAGING IN SIMILAR IMPACT LOANS AND SWAPS.

6. DESPITE CONCRETE EVIDENCE OF IMPROVEMENT IN RECENT  
MONTHS IN JAPAN'S PAYMENTS POSITION (I.E. EXPORT  
GROWTH BUT STABLE IMPORTS), THERE IS CONSIDERABLE  
DIVERGENCE OF OPINION REGARDING OUTLOOK FOR YEN RATE.  
FOREX TRADER OF LARGE TRADING COMPANY BELIEVES YEN  
WILL STRENGTHEN TO 295-300 RANGE AFTER MID-OCTOBER,

AND RISE FOR PERHPS 280/DOL IN DECEMBER, BEFORE  
DROPPING NEXT JANUARY AND FEBRUARY FOR USUAL SEASONAL  
MOVEMENT IN TRADE. ON OTHER HAND FOREX TRADER AT  
BIG U.S. BANK HEARS RUMOR OF 320/DOL RATE BEFORE YEAR-  
END.

7. FAVORABLE PSYCHOLOGICAL IMPACT ON YEN RATE A FEW  
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WEEKS AGO DUE TO REPORT OF CURRENT ACCOUNT SURPLUS IN  
AUGUST AND RECEIPTS OF PETRO-DOLLARS BY GOJ HAS BEEN  
SHORT-LIVED AND SOME BOJ SUPPORT HAS AGAIN BECOME  
NECESSARY. IN SEPTEMBER, OFFICIAL RESERVES INCREASED  
(300 MILLION. REPORTS SAY THIS IS DUE TO MOF WITH-  
DRAWAL OF \$500 MILLION IN FOREIGN EXCHANGE FROM  
JAPANESE BANKS -AN AMOUNT EQUAL TO THE PROCEEDS OF  
SAUDI ARABIAN OIL MONEY DEPOSITED BY MOF IN BANKS ON  
SEPTEMBER 18 (TOKYO 12485 NOTAL). PROCEEDS OF THOSE  
FUNDS HAVE EVIDENTLY NOT PROVIDED MORE THAN TEMPORARY  
PSYCHOLOGICAL SUPPORT TO FOREX MARKET, PROBABLY  
BECAUSE UNDER BOJ REGULATIONS DOLLAR PROCEEDS ARE NOT  
PERMITTED TO BE BROUGHT INTO JAPAN.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, FOREIGN EXCHANGE RATES, YEN (CURRENCY), CAPITAL FLOWS, BANK LOANS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 11 OCT 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
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**Errors:** N/A  
**Film Number:** D740291-1022  
**From:** TOKYO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19741050/aaaabqwt.tel  
**Line Count:** 250  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
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**Review Authority:** golinofr  
**Review Comment:** n/a  
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**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** RECENT FOREIGN EXCHANGE MARKET DEVELOPMENTS SUMMARY: YEN HAS DECLINED BY 1.6 PERCENT FROM  
**TAGS:** EFIN, JA  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005